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Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (New York, 27 April 2009)

Introduction

1. The special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (UNCTAD) was held in New York on 27 April 2009. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus and the Doha Declaration on Financing for Development".

2. The 2009 meeting was preceded by extensive consultations within the Economic and Social Council and between the President and members of the Bureau of the Council and the management of the Bretton Woods institutions, the World Trade Organization and UNCTAD, and meetings with members of the executive boards of the International Monetary Fund (IMF) and the World Bank and members of the UNCTAD Trade and Development Board. In the course of those consultations and meetings, the agenda and the format of the special high-level meeting were discussed and agreed upon well in advance of the meeting.

3. The two sub-themes that had been selected to serve as the focus of substantive discussions in two consecutive plenary debates were: (a) addressing the impact of the global financial and economic crisis on development, including issues related to

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the international financial and monetary architecture and global governance structures; and (b) strengthening the intergovernmental inclusive process to carry out the financing for development follow-up. The meeting had before it a note by the Secretary-General (E/2009/48), which provided background information and suggested possible questions on the two sub-themes.

4. The 2009 meeting was preceded by three informal briefings chaired by the President of the Economic and Social Council, which brought the perspectives on the global financial crisis and its impact on development on the part of institutional and other stakeholders, including civil society, to the attention of Member States. An informal meeting to discuss the note by the Secretary-General was also held.

5. The meeting featured a brief opening plenary meeting and two thematic debates on the above-mentioned topics. The opening plenary meeting included statements by the President of the Economic and Social Council, Sylvie Lucas (Luxembourg); the Secretary-General of the United Nations, Ban Ki-moon; the President of the Trade and Development Board of UNCTAD, Dian Triansyah Djani; the Deputy Chair of the International Monetary and Finance Committee, Hany Dimian; the Director-General for International Affairs, Ministry of Finance and Public Credit of Mexico, Ricardo Ochoa, speaking on behalf of the Chairman of the World Bank/IMF Development Committee; and the Deputy Director-General of the World Trade Organization, Valentine Rugwabiza. The opening plenary meeting concluded with a presentation by the Senior Adviser in the Office of the Senior Vice-President and Chief Economist at the World Bank, Zia Qureshi, on the joint Bretton Woods publication *Global monitoring report 2009: a development emergency*.

6. A significant number of executive and alternate directors of the boards of the World Bank and IMF participated in the 2009 meeting. Other participants included ministers, vice-ministers and other high-level national officials in the areas of finance, foreign affairs and development cooperation, as well as senior representatives of United Nations organizations and other international organizations (see E/2009/INF/1). Representatives of non-governmental organizations and the business sector also participated actively in the two thematic debates.

7. The President of the Economic and Social Council opened the meeting by noting that although the human cost of the global financial and economic crisis was being felt heavily in both developing and developed countries, the crisis had seriously set back the development efforts of the poorest countries and increased the challenges they confronted. If a large-scale human tragedy was to be prevented, the human impact of the crisis had to be addressed in a coherent and coordinated manner. However, even after the crisis had been overcome, immense developmental challenges would remain. In that respect, it was critical to ensure effective follow-up to the Monterrey Consensus[1] and the Doha Declaration on Financing for Development (General Assembly resolution 63/239, annex) and the commitments made therein. The President noted that the summary of the meeting would be an important input to the Conference on the World Financial and Economic Crisis and Its Impact on Development, to be held in New York in early June.

[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

8. In his address, the Secretary-General stressed the need for unprecedented international cooperation to address the global financial and economic crisis. He noted that for countless people living in poverty and facing even greater hardship in these tumultuous times, these were matters of life and death. In too many parts of the world, frustration had erupted into violent protests, threatening stability and peace. Development efforts sagged under the weight of the crisis. Negative effects were expected in nearly every area covered by the Monterrey Consensus and the Doha Declaration. The Secretary-General also pointed, however, to the fact that as devastating as the crisis was, it was also an opportunity to move towards a "green new deal".

9. The crisis had proved that the current system of global economic governance was not adequate to today's challenges. Faith in financial deregulation and market self-regulation had been diminished and in its place a new commitment to effective regulation and supervision was being seen, not just nationally, but also globally. However, the Secretary-General pointed out, new forms of protectionism were also being seen and these had to be resisted, not only in trade but also in investment and international migration. There remained also an urgent need to complete the development-oriented Doha round of trade negotiations. The Secretary-General stressed that the needed reform of the international economic system would require many steps and the full engagement of all countries and the United Nations. The international community had an important opportunity to make progress in June, when the General Assembly would convene the Conference on the World Financial and Economic Crisis and Its Impact on Development. The spring meeting of the Economic and Social Council should generate ideas that would help to make the June event a success.

10. The President of UNCTAD's Trade and Development Board said deregulation of financial markets had led to the creation of instruments detached from productive activities in the real economy. They had resulted in double-digit profits from economies growing at a single-digit rate, on the basis of the assumption that past trends in the development of asset prices accurately reflected future trends. The crisis showed that such expectations about long-term price trends were not realistic because no funds had been invested in the productive capacity of the real economy, where they could have generated increases in real income. He warned that the crisis would seriously impede the developing world's ability to achieve the Millennium Development Goals and also have serious implications for the six goals of the Monterrey Consensus.

11. The representative of the Chair of the Development Committee said the effects of the financial crisis in the developed countries were now hitting the developing world hard and that this had been reflected in the communiqué of the Development Committee meeting held on 26 April 2009. World trade would plummet in 2009 for the first time since 1945, while global private capital flows to developing countries had fallen off a cliff, with the World Bank estimating a drop of more than $700 billion from the 2007 peak. The financial crisis was turning into a human and development calamity, he said. All the members of the international community were challenged to help offset and alleviate the impact of the crisis on developing countries, and especially the poorest and most vulnerable in societies. Facilitating the recovery of the developing countries would contribute significantly to the recovery of the global economy as a whole.

12. The Deputy Director-General of the World Trade Organization said many developing countries were now experiencing a "perfect storm" with myriad causes and symptoms that had sent their economies into a downward spiral. Already weakened by the effects of the 2007-2008 food and energy crises, their financing sources were drying up as they witnessed a simultaneous sharp decline in foreign direct investment, remittances from overseas workers, export earnings and tourism revenues, together with an outflow of domestic savings. Developing countries were expected to find it more difficult to raise capital in the developed world, where they would be competing for resources with Governments seeking to fund their financial and fiscal stimulus programmes. She said it was fortunate that, to date, there had been no indication of a slide into high-intensity protectionism. The multilateral trading system built over the past 60 years had indeed provided a strong defence and a unique insurance policy against protectionism. Nevertheless, vigilance needed to prevail and low-intensity protectionist measures had to be avoided, including those that directed trade restrictions at specific sectors or industries in order to protect jobs and business profit margins.

13. The Deputy Chair of the International Monetary and Finance Committee of the Board of Governors at the International Monetary Fund, in referring to the meeting of the Committee held on Saturday, 25 April 2009, called for the urgent conclusion of an ambitious and balanced Doha development round and stressed the importance of ensuring sufficient trade finance and meeting the commitments already made on market access for least developed countries. He also noted that IMF should assess its actions regularly to restore macroeconomic stability, sustainable growth and international financial stability. The Committee wished to see reform of IMF, including in the area of resource mobilization, and the establishment of a global financial safety net. IMF should continue acting promptly to make available, under adequate safeguards, substantial financial resources to member countries with external financing needs.

14. The Senior Adviser in the Office of the Senior Vice-President and Chief Economist at the World Bank presented the *Global Monitoring Report 2009: a Development Emergency*. He noted that developing countries had seen their sharpest economic decline in decades. Net private capital flows to those countries were likely to turn negative in 2009, representing a drop of more than $700 billion from the 2007 peak, and estimates of their financing gaps in 2009 reached as high as $1 trillion. The key point was that the global financial crisis was rapidly turning into a human and development crisis, with a particular impact on poor countries with the least resources to take ameliorating actions and on poor people lacking social safety nets. The sharp reduction in investment flows due to the credit crunch was referred to, as was the expectation that world gross domestic product would fall in 2009 for the first time since the second world war. The many impacts of the crisis were noted, including falls in export volumes, commodity prices, remittances sent from overseas, tourism, foreign direct investment, public revenues and possibly even development assistance, and rising unemployment.

15. Various adverse impacts in terms of achieving the Millennium Development Goals were, accordingly, noted in the *Global Monitoring Report 2009*. These impacts included expected substantial rises in the numbers of the extreme poor, the unemployed and malnutrition. Gains made in education, especially for women and girls, were similarly under threat and, more generally, women were particularly vulnerable to the effects of a crisis that had begun far away.

Theme 1: addressing the impact of the global financial and economic crisis on development, including issues related to the international financial and monetary architecture and global governance structures

16. The President of the Economic and Social Council opened the discussion, stressing the need for decisive, coherent action in order to help developing countries, which had limited resources to blunt the economic downturn, to face the severe impact of the crisis, compounded by vulnerability from earlier food and energy crises and the accelerating trends in climate change. She recalled the note presented by the Secretary-General for the meeting, addressing issues such as the need for developed countries to sustain official development assistance (ODA) and aid-for-trade levels, while ensuring that their recovery programmes did not impose short-term and longer-term costs on developing countries and countries with economies in transition; the need to reduce the cost of economic adjustment for developing countries; the importance of longer-term regulatory and institutional reforms that would lessen the likelihood and impact of future economic and financial crises; and the need for credible, representative and effective mechanisms for macroeconomic coordination, with governance structures that were duly representative of the interests of all countries and that were able to exercise strong policy leadership.

17. In the long interactive exchange of views that followed, many representatives noted that recovery in developing countries was expected to be more prolonged than in developed countries because of factors such as reduced resources for public investment, limited safety nets, reduced private investment, reduced trade finance, a decrease in remittance payments, falling commodity prices, a possible reduction in ODA, likely increases in debt and reduction of funds to relieve debt. The crisis had come close upon food and fuel crises, which had deepened its impact and sapped confidence. Some speakers noted that the impact on middle-income countries should not be underestimated, while others stressed that the least developed countries were being affected disproportionately.

18. One participant, speaking on behalf of many countries, noted, as did others in the dialogue, that the crisis had revealed major flaws in the financial sector and in financial regulation and supervision at both the global and national levels, and in order to find the way out of the crisis it was therefore necessary to restore confidence, ensure proper functioning of financial markets, achieve stricter oversight of such markets and reform the global financial system.

19. Most participants reflected on the human costs of the crisis and the need to keep these in focus more than had so far been the case. Such impacts were already being felt in both developed and developing countries, and were illustrated particularly starkly in the projection contained in the *Global Monitoring Report 2009* of up to 200,000 to 400,000 more infant deaths each year as a result of the crisis.

20. Several participants in the interactive dialogue noted that such human dimensions of the tragedy were not only critical in ensuring a sense of solidarity and urgency, but reflected the fact that the crisis should not be seen as a purely "financial" phenomenon. The fact that it was man-made and that many stakeholders in the system shared responsibility for its human impacts should energize the

response to it, help to address systemic causes and prevent it from becoming a long-term and generalized human crisis.

21. One representative, speaking on behalf of a large group of countries, took up this theme when noting the human dignity aspects of the crisis and warned against too readily falling back on agreed language and so-called common ground that did not fully address the root causes of the crisis, which had not originated in developing countries but had nevertheless reserved its worst impacts for them. It was stressed that such countries were also the weakest in terms of resources to counter such effects. Many participants noted that the United Nations had an important coordinating role in addressing these issues and putting such countries in a position to counter the crisis and prevent it from being repeated.

22. This issue of how to put developing countries in a better position to counter the effects of the crisis, and the roles of the United Nations and the international financial institutions in this area was a theme in most interventions. Many made the point that greater supplementary funding should be made available by IMF for counter-cyclical stimulus measures in such countries. Pro-cyclical measures involving reductions in fiscal spending should be avoided. Many representatives also made the point that IMF and other lending institutions needed to be more flexible in their lending practices, and urged against conditionality that might force such countries into pro-cyclical responses that would probably broaden and deepen the crisis. Pro-cyclical policies by individual countries would be in direct conflict with the agreed global effort to overcome the loss in private consumption and investment afflicting all countries. A call was also made to make pledges for social protection for the most vulnerable through, for example, the World Bank's vulnerability framework.

23. Many representatives reflected upon the important role regional banks could play in addressing the crisis and helping to prevent future ones, and highlighted the need for them to be properly funded with transparent and effective disbursement systems. Several participants commented that the need to provide assistance to developing countries in the form of capital extended not only to assist in respect of problems related to balance of payments, but also for investment, particularly in the infrastructure needed for sustained development.

24. Many participants noted the high social cost of unemployment and social dislocation, in both developed and developing countries, and the need to improve safety nets in this area. It was, however, stressed that international cooperation to resolve the crisis, not protectionism, was the way to maintain jobs. That point needed to be made clearly, uniformly and often.

25. A common theme overlaying the dialogue was that there was no one-size-fits-all in addressing the crisis and countries should have the freedom to frame their financial development in accordance with the characteristics and needs of their respective economies. In particular, many participants noted the need to preserve the policy space of developing countries in responding to the global crisis and to avoid conditionality.

26. Executive directors from the boards of the Bretton Woods institutions expressed the view that the financial crisis provided a supreme test for international institutions to fulfil their responsibilities. The World Bank expected to triple its annual level of disbursement during the next three years at the same time that it was

exerting extra effort to simplify procedures, reduce the transaction costs of lending and eliminate outdated conditionalities. Effort was also being exerted to disburse International Development Association lending ahead of schedule to help the poorest countries affected by the crisis. The Dean of the World Bank Board of Directors underlined the fact that the formal name of the Development Committee was actually the "High-level Committee on the Transfer of Real Resources to Developing Countries" and that this should not be forgotten. Directors echoed the view, also expressed by many other participants, that the crisis affected real people in real ways, and that it should be tackled with this aspect clearly and foremost in mind, not just in terms of macroeconomics. It would be unacceptable for the world community to sit by while the numbers of hungry persons and children dying of malnutrition and disease went up exponentially.

27. The intention of financial institutions to double or triple resources for development was welcomed, but many referred to the pending question concerning disbursement of those resources in a fair way. The difficulties involved in conditionality and its role in exacerbating the impacts of the crisis through pro-cyclical policies were noted frequently, and some speakers expressed unease about relying on institutions to lead the international community out of the crisis that had, in their view, helped lead it into the crisis. They expressed the view that new capitalization and responsibilities should not be allocated to the international financial institutions until they had first undertaken necessary reforms.

28. Others took a different view, pointing to necessary reforms already completed or planned, and suggesting that the swift responses required by the crisis demanded reliance on proven existing institutions, rather than on creating new ones.

29. The potential for a new debt crisis was noted, and options mentioned by representatives in order to counter such a development were moratoriums on interest payments on debt for poor countries and, in the view of some participants, also on certain private investors, as well as adjustment to rules under the Basel II framework[2] (such as a temporary decrease of capital requirements) to free up capital.

30. Several speakers noted the imperative of maintaining ODA commitments as one aspect of ensuring predictable finance to meet development goals, and as a statement of solidarity in addressing the effects of the crisis. Several representatives indicated that their countries intended to maintain or even increase ODA. Support to explore and implement voluntary innovative financing mechanisms was also expressed. The considerable cost of aid ineffectiveness and the importance of implementing the Accra Agenda for Action (A/63/539, annex) as a matter of urgency were also stressed.

31. Several participants pointed out that one aspect of the credit crunch having a direct negative impact on achieving the Millennium Development Goals was a lack of availability of microfinance, which was of very practical use in assisting small enterprises and helping to lift individuals and communities out of poverty.

32. The urgency of an early, comprehensive and balanced outcome to the Doha round of trade talks was commented on by many participants, as was the need to

[2] Bank for International Settlements, "Basel II: International Convergence of Capital Measurements and Capital Standards: a Revised Framework", June 2004.

avoid, in practice as well as in rhetoric, any protectionist responses reminiscent of the "beggar-thy-neighbour" policies that had prevailed in the 1930s with disastrous consequences. While the public comments of many countries against recourse to protectionist measures were to be welcomed, some participants expressed doubts as to whether the actions of countries would live up to their rhetoric in this area, and noted that a close watch would need to be kept on that issue.

33. The need for aid for trade to be scaled up was noted by some speakers, to ensure that practical advantage could be taken of market opportunities. Trade financing was drying up and needed to be facilitated if the benefits of the Doha round were, in practice, to flow to developing countries. Commitments in this respect were made by some representatives.

34. Several speakers noted that amid the challenges of the crisis, there were also opportunities to address some of the systemic issues that had contributed to the crisis and its dire effects, including by increasing the voice and participation of developing countries in the global financial and economic system and by building bridges between the work of the different institutions and groupings. In their view, it was only by making rapid progress in strengthening the voice and participation of developing countries that it would be possible to restore the effectiveness and legitimacy of existing international financial institutions.

35. Another forthcoming opportunity was that of addressing the issue of climate change. Many representatives felt that this was a time to ensure that the global financial and economic systems were reshaped to address issues of environmental sustainability more systemically than in the past. New approaches to the way such systems operated could also be considered.

36. In the broader perspective, the point was made by several participants that new financial regulation should take into consideration and more fully internalize the social costs and benefits of financial innovation, should include macroprudential oversight, and should avoid regulatory arbitrage. At the same time, the point was made that no particular template on financial development should be imposed on developing countries.

37. Some participants addressed the request made for the establishment of a coherent and well-coordinated United Nations monitoring and alert mechanism to track developments. It was commented that this might be valuable in a context where there was still relatively sparse and fragmented data on the political, social, economic and security effects of the crisis. It was noted that the presence of the United Nations in the field might be especially valuable in that regard. Many speakers took the view that the United Nations should play a more concerted role in engendering support for coherent global actions in the face of the crisis and that the Economic and Social Council had a special role in that regard.

38. Several speakers raised the issue of domestic resource mobilization and, in that respect, the costs to development of diminishing tax revenues as a result of the crisis, a problem exacerbated by inadequate tax cooperation at the global level. The need to enhance the fiscal capabilities of countries to ensure sustained development was acknowledged, as was the need for greater United Nations action in this area, particularly in setting the norms and rules for addressing such activities. It was recalled that the Doha Declaration on Financing for Development acknowledged the need to further promote international cooperation in tax matters and requested the

Economic and Social Council to examine the strengthening of institutional arrangements, including the Committee of Experts on International Cooperation in Tax Matters. Some delegates suggested that the Committee should be upgraded to an intergovernmental body in order to give all countries an effective voice when issues of cooperation on tax matters were being decided by the international community.

39. Many speakers underlined the view that the unprecedented crisis required an unprecedented level of cooperation among countries. Some speakers noted that existing international institutions were being severely challenged to respond to the crisis. The scale of the crisis merited serious consideration of the flaws in global economic governance exposed by it and of the need for new mechanisms and institutions beyond those presently in existence, such as the proposed "global economic council" or some similar body. Other speakers emphasized that the global community should work with the existing institutions and respond to the crisis by rapidly strengthening them and augmenting their resources.

40. There was discussion about the challenges the crisis posed in terms of rethinking fundamental paradigms and the relative roles of the State and markets. Many interventions emphasized that a paradigm shift would eventually become reality in new and alternative approaches to economic policy and international cooperation that promoted human security and development, democracy, social justice and solidarity. As examples, it was noted that the principles of the European "welfare State" and the practices of Islamic financing models might yield some insights and solutions to deal with aspects of the crisis and to help to avoid similar situations in the future.

41. There was a view that the United Nations conference to be held at the highest level on the world financial and economic crisis and its impact on development provided a timely opportunity to discuss reforms in the international financial architecture and global economic governance in support of a more equitable and development-oriented economic system, including its gender dimensions. Several speakers welcomed the work of the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System (see A/63/838) and indicated that its recommendations merited serious consideration. The significant contribution the spring meeting of the Economic and Social Council could provide towards a coordinated, global response to the crisis and to the preparation of the June conference was also stressed by many representatives.

42. Finally, numerous interventions underlined the important role that the United Nations had to play in responding to the crisis and the serious consideration that had to be given to strengthening that role. Many speakers emphasized that global reform efforts should be principally undertaken in fully inclusive bodies, such as those of the United Nations system, which contained the Bretton Woods institutions. Decisions coming from inclusive bodies were not only more politically legitimate, but also had an increased probability of arriving at appropriate conclusions because they incorporated inputs from those most adversely affected.

Theme 2: strengthening the intergovernmental inclusive process to carry out the financing for development follow-up

43. The President of the Economic and Social Council recalled paragraph 89 of the Doha Declaration, which acknowledged the need for a strengthened and more effective intergovernmental inclusive process to carry out the financing for development follow-up and requested the Council to consider the matter during its spring meeting and at its substantive session of 2009, in consultation with all relevant stakeholders, with a view to making appropriate and timely recommendations for final action by the General Assembly as early as possible at its sixty-fourth session. She drew attention to the note by the Secretary-General (E/2009/48) and the suggestion contained therein that a more effective and robust process for financing for development follow-up might have at its centre a multi-stakeholder financing for development committee that would replace both the spring high-level meetings of the Council with the international financial and trade institutions and the biennial high-level dialogues of the General Assembly.

44. Representatives were mostly of the opinion that the financing for development follow-up process needed to be strengthened and become more effective while maintaining its multi-stakeholder nature. To make the process more productive, visible and effective, a number of representatives proposed that more time should be allotted to the financing for development follow-up meetings and that they should result in concrete and actionable policy recommendations. Many also supported the view of the Secretary-General that a dynamic, inclusive, efficient, transparent and cost-effective mechanism, which would facilitate continuous dialogue and enhanced policy coherence, was needed.

45. The proposal of the Rio Group to set up a new entity to strengthen the financing for development follow-up process was noted by several participants. It was generally agreed that it was important to get the views of all relevant stakeholders on the full range of ideas on strengthening the follow-up process. Many representatives recognized that efforts and flexibility on the part of all the actors involved would be necessary to arrive at appropriate recommendations to the General Assembly.

46. Several delegates stressed that a strengthened financing for development follow-up process was critical, with the possible creation of new international entities to address the financial crisis and the reform of the international financial architecture and global economic governance structures, as entities such as the Group of 20 were not fully representative or inclusive and did not enjoy the required legitimacy. A few participants emphasized the need to address the implications of the emerging international governance hierarchy for development financing. Particular concern was expressed about the reluctance of some developed countries to fund World Bank programmes, in contrast to agreement on large funding increases for IMF lending facilities.

47. Some delegates expressed the hope that a strengthened follow-up mechanism would reflect stronger international coordination, advancing beyond Monterrey, and be based on political discussions at the United Nations supported by strong technical follow-up, in cooperation with IMF, the World Bank and the World Trade Organization. They also suggested having two levels of coordination and cooperation between these institutions, at the staff level and at the

intergovernmental level, while preserving their respective mandates. Many delegates highlighted the importance for the United Nations, and in particular the Economic and Social Council, to continue to play a central role in coordinating any strengthened follow-up process.

48. Some delegates cautioned against creating new entities for the follow-up process, particularly if they would be less inclusive and transparent than existing ones. They were of the view that new ways of utilizing and, above all, strengthening and making more effective existing mechanisms should be explored instead. This should be done in a spirit of global partnership. Suggestions included retaining existing Economic and Social Council and General Assembly follow-up meetings, while modifying their timing and formats to attract higher level participation through inter alia more focused discussion and more effective use of time while avoiding any duplication. Mention was also made of the importance of making better use of existing data and reports from major institutional stakeholders and their presence and participation in meetings. One delegation also indicated that, in view of the fact that there were several conferences related to topics concerning financing for development in 2008 and 2009, it might not be advisable to hold a high-level dialogue on financing for development later this year in the General Assembly.

49. Representatives of the Bretton Woods institutions reaffirmed their strong belief in cooperation among the United Nations, the World Bank, IMF, the World Trade Organization and UNCTAD, but felt that some stakeholders had not been sufficiently involved in the process, probably because of the present nature and characteristics of the follow-up mechanism. The President's initiative to make the discussion at this year's meeting more focused was commended, while there were suggestions for further improvement, including considering with an open mind the suggestions made by the Secretary-General in his note. Some emphasized a need to focus discussions on policy implementation, while others stressed promoting more interaction, dialogue and results and reducing formality in the meetings.

50. The President concluded the discussion by reiterating that the meeting was supposed to be the start of a multi-stakeholder, consultative process on the topic and announcing that informal consultations including all relevant stakeholders would be convened in the coming weeks. These consultations would hopefully enable deeper discussions of all relevant ideas and proposals with a view to adoption by the Council at its July substantive session of concrete recommendations for action by the General Assembly at its sixty-fourth session, as called for in the Doha Declaration. Representatives of all stakeholders at the meeting thanked the President and pledged to engage actively and productively in these upcoming consultations.

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Operational activities of the United Nations for international development cooperation

Actions taken by the executive boards and governing bodies of the United Nations funds, programmes and specialized agencies in the area of simplification and harmonization of the United Nations development system

Report of the Secretary-General

Summary

The United Nations development system has scaled up efforts towards simplification and harmonization of rules and procedures with a view to achieving a closer match between its diverse working modalities and the pursuit of coherence. At the system-wide level, the plan of action of the United Nations System Chief Executives Board for Coordination/High-level Committee on Management for the harmonization of business practices in the United Nations system represents a major attempt at making a step change in the area of management and administration. Recent reform dynamics, notably the "Delivering as one" country pilots, have injected fresh energy and a sense of urgency for the United Nations development system to reassess its way of doing business in order to facilitate coherent United Nations operations at the country level.

United Nations system organizations have responded comprehensively to mandates on transaction costs and on operational activities for development, in particular General Assembly resolution 62/208. A large number of initiatives have been undertaken in various areas and some quick-win projects have started to deliver tangible results in terms of reducing of transaction costs and promoting closer inter-agency collaboration. These processes have been driven by growing political momentum, as evidenced by the expanding scope and quantity of guidance on

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business practices emanating from the executive boards and governing bodies. However, challenges are still ahead, mainly arising from the diversity within the United Nations system and the insufficiency and nature of funding.

The present report introduces progress towards simplification and harmonization at the system-wide and individual agency levels, with a focus on actions taken by the executive boards and governing bodies, as mandated by the General Assembly.

The Economic and Social Council may wish to take note of the report and encourage United Nations system organizations to continue to work towards simplification and harmonization, under the guidance of their executive boards and governing bodies.

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I. Introduction

1. The pursuit of simplified and harmonized working modalities in the United Nations system is not new. As early as 1977, the General Assembly, in its resolution 32/197, recommended a series of measures to achieve maximum uniformity of administrative, financial, budgetary, personnel and planning procedures with a view to reducing transaction costs and increasing resources available to programme countries. The need to move towards system-wide coherence in management and administration has gained growing political momentum and has been repeatedly reflected in Assembly resolutions on operational activities for development. Most recently, in paragraph 112 of its resolution 62/208, the Assembly requested the executive boards and governing bodies of the United Nations funds, programmes and specialized agencies to assess the progress achieved, including costs and benefits, in the area of simplification and harmonization of the United Nations development system at the global, regional and country levels, analyse the potential impacts on development programming and report to the Economic and Social Council at its substantive session on an annual basis.

2. Following the adoption of resolution 62/208, the issue of the simplification and harmonization of business practices has attracted growing attention in the intergovernmental processes, as reflected in the conference room paper, submitted to the Economic and Social Council at its substantive session of 2008, on actions taken by the executive boards and governing bodies (E/2008/CRP.4). Recognizing this momentum, the Council, in its resolution 2008/2, requested that the Secretary-General make every effort to ensure that the information provided on the topic was presented at future sessions of the Council in the form of a report.

3. The present report has been prepared in response to that request. It provides the Council with a broad overview of progress towards simplification and harmonization at the system-wide and individual agency levels. Particular emphasis has been placed on the actions undertaken by the executive boards and governing bodies in the course of 2008. The report focuses on three themes consistently underscored by recent General Assembly resolutions on the triennial comprehensive policy review of operational activities, namely, harmonization of cost-recovery policies, rationalization of the United Nations country presence and simplification and harmonization of rules, procedures and business practices.

4. The annual reports of the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF) and the World Food Programme (WFP) to the Council contain information on discussions by their respective executive boards on simplification and harmonization. The present report therefore limits its scope to actions taken by the intergovernmental bodies of other United Nations system organizations. It should be read in conjunction with the reports Secretary-General on results achieved and measures and processes implemented in follow-up to General Assembly resolution 62/208; on the resident coordinator system; and on human resources challenges within the United Nations development system at the country level.

II. Simplification and harmonization of cost-recovery rates, practices and policies

5. The growing imbalance between core and non-core resources substantially increases transaction costs and challenges the principle of full cost recovery. In 2007, non-core resources accounted for over 71 per cent of the overall funding received by the United Nations development system. Activities related to negotiating individual funding agreements, tracking programming and reporting financial data for a large number of individual projects add significantly to costs.

6. However, full cost recovery still remains rare across the United Nations development system. A recent overview of the financial situations of specialized agencies indicates that at least half of their total resources now came from voluntary contributions and that they did not recover their support costs fully.

7. The cost-recovery principles, policies and practices of the United Nations system remain diverse and complex, which, on the one hand, weakens the image of the United Nations as a unified system and, on the other, increases the transaction costs for United Nations system organizations and their development partners. Although 13 per cent has been more or less accepted as a standard programme support cost rate by many United Nations system organizations, a wide array of programme support cost rates have been used in response to the growing diversity of programme activities, funding arrangements and cost structures.

8. Despite strengthened efforts in recent years to simplify cost classifications and harmonize cost-recovery practices, significant gaps still remain. For example, although the definitions for direct costs, indirect variable costs and fixed indirect costs are now widely used in the United Nations system (see box), the contents of each cost category remains to be harmonized. In the long term, organizations should identify and recover direct costs more comprehensively so that the projects will have no element of subsidization from the core budget for activities funded from non-core resources.

Categories of costs for extrabudgetary activities

In 2003, the High-level Committee on Management established a working group, chaired by the United Nations Educational, Scientific and Cultural Organization, to promote the development of common guidelines for the application of programme support costs within the United Nations system. In three meetings, held from 2003 to 2005, the working group reached a consensus on common definitions of cost categories and principles for cost recovery, as follows:

(a) Direct costs are incurred for, and can be traced in full to, an organization's activities, projects or programmes in fulfilment of its mandate. Examples include costs for project personnel and equipment;

(b) Fixed indirect costs are incurred by the organization, regardless of the scope and level of its activities and cannot be traced unequivocally to specific activities, projects or programmes. Typical examples include costs for the top management of an organization;

(c) Variable indirect costs, usually referred to as programme support costs, are incurred by the organization as a function of and in support of its activities, projects and programmes and cannot be traced unequivocally to specific activities, projects or programmes. Typical examples include service and administrative units and their related systems and operating costs.

9. Member States are increasingly concerned about the subsidization by core resources of activities funded by non-core resources. In its resolution 62/208, the General Assembly requested the executive boards of the United Nations funds, programmes and specialized agencies to review the issue of cost recovery to ensure that core resources did not subsidize the projects undertaken through non-core/supplementary/extrabudgetary funding. The Assembly also requested the United Nations development system to further standardize and harmonize the concepts, practices and cost classifications related to transaction cost and cost recovery, while maintaining the principle of full cost recovery in the administration of all non-core/supplementary/extrabudgetary contributions, including in joint programmes.

A. System-wide efforts and progress

10. Building on an early agreement on cost classifications, recent inter-agency efforts have moved beyond programme support cost rates to look at wider policy issues. The High-level Committee on Management has launched a process to re-examine the current cost-recovery modalities for further harmonization of cost-recovery policies taking into account the development of "Delivering as one" at the country level. A number of specific recommendations have been made, including, in the short term, focusing on direct costs and indirect costs to be charged to projects, and, in the medium and long term, the establishment of common guidelines for cost-recovery purposes.

11. In April 2008, UNDP, UNFPA, UNICEF, WFP and the specialized agencies agreed that they would use 7 per cent as a harmonized indirect programme support cost rate for multi-donor trust fund and multiagency joint programmes and activities at the country level. Organizations decided in the long term to achieve full cost recovery by more comprehensively identifying and recovering direct costs.

12. Further reform efforts in this area have been made in the context of a joint United Nations Development Group/High-level Committee on Management working group; established in 2008, it is expected to conclude its work by the end of 2009, with the objective of providing guidelines to: (a) clarify and reach a common understanding of the cost categories directly and indirectly related to extrabudgetary activities and of the respective costing methodologies; (b) adopt a sustainable and harmonized support cost policy, avoiding cross-subsidization of extrabudgetary projects by the core resources of the organizations; and (c) achieve, through greater accountability and transparency, better consistency within the United Nations system and increased credibility and trust when proposing programme support cost rates to donors.

B. Actions taken by the executive boards and governing bodies

United Nations Educational, Scientific and Cultural Organization

13. The United Nations Educational, Scientific and Cultural Organization currently recovers programme support costs by charging a percentage, such as 13 per cent of the expenditure of an extrabudgetary project. Since 1 December 2006, 10 per cent has been applied to UNESCO special accounts, unless otherwise decided by the Director-General. In April 2008, UNESCO joined the consensus that a harmonized 7 per cent programme support cost rate should be applied for multi-donor trust funds and multiagency joint programmes and activities at the country level.

14. During the 180th session of the UNESCO Executive Board, held in July 2008, the Director-General reported on the management of extrabudgetary resources and activities, including an update on the UNESCO cost-recovery policy. Having considered the report, the Executive Board: (a) took note of the lead role taken by UNESCO, in the framework of High-level Committee on Management, to harmonize cost-recovery policies among United Nations organizations; (b) welcomed the decision of the Director-General to introduce and implement a cost-recovery policy that recognized the principle of true cost recovery in accordance with the triennial comprehensive policy review; and (c) took note of the guidelines developed by UNESCO on the cost-recovery policy and budgetary aspects of extrabudgetary projects and acknowledged the initial efforts made to clearly identify the direct costs and the indirect fixed and variable costs of the extrabudgetary activities and to include all identifiable support functions in the direct project costs.

15. The UNESCO Executive Board also invited the Director-General to: (a) further develop the above-mentioned guidelines using a well-defined support cost measurement methodology; (b) continue efforts to establish a well-defined support cost policy; and (c) present to it, at its 181st session, the UNESCO cost-recovery policy, taking into account planned and ongoing efforts for harmonization on the issue within the United Nations system and the results of the cost measurement study currently being conducted by the secretariat.

World Health Organization

16. The World Health Organization (WHO) continues to face difficulties in financing its corporate management and administrative support functions owing to the increasing share of voluntary contributions, on the one hand, and inadequate cost recovery, on the other. The average rate for programme support costs for WHO is currently below 7 per cent. The gap in financing the supporting functions is widening against a backdrop where donors repeatedly request WHO to reduce the standard 13 per cent charge.

17. In order to address the shortfall in financing the organization's indirect costs, a series of measures are being taken. Greater budgetary discipline is being imposed and greater attention is being placed on the cost of implementing voluntary programmes in order to ensure that all costs directly related to programme implementation are charged to those programmes.

18. Recent progress in this regard was reflected in the reports of the secretariat on management reforms submitted to the seventh and eight sessions of the Programme, Budget and Administrative Committee of the Executive Board, held in January and May 2008, respectively. During the seventh session, the Committee noted that several measures were being pursued to ensure sustainable financing of indirect support functions aiming to maintain the organization's standard 13 per cent programme support cost rate, as were other measures consistent with those taken elsewhere in the United Nations system. During the eighth session, the Committee welcomed steps being taken to better define both the direct and indirect costs of providing administrative and other support to activities funded by voluntary contributions and urged the secretariat to identify mechanisms for ensuring that those essential support functions were financed.

Food and Agriculture Organization of the United Nations

19. A range of programme support cost rates are being applied by the Food and Agriculture Organization of the United Nations to different categories of extrabudgetary projects. For technical assistance and direct support of regular programme activities, a standard 13 per cent rate is in effect. With regard to emergency assistance, a ceiling rate of 10 per cent applies. The current rate used for jointly funded activities is 10 per cent or less.

20. During the period from 1 June 2007 through 31 May 2008, FAO opened 714 projects, all of which have been charged at rates falling within the currently approved policy. Seven new projects were approved as joint programmes in the "Delivering as one" pilot countries where a programme support cost rate of 7 per cent is levied in line with the agreement among United Nations organizations, with the balance recovered as a direct cost to the projects. However, a significant share of FAO programme support costs remains unremunerated.

21. Recent progress in this regard has been introduced in an annual report on support cost expenditure and recoveries, submitted to the Finance Committee of the FAO Council at its 123rd session. Having considered the report, the Committee: (a) was satisfied that the project support cost rates for the period under review had been applied within the approved policy; (b) noted with concern the persistent and growing under-recovery of administrative and operational support costs for extrabudgetary activities; (c) supported the proposal to extend the support cost policy to include fixed indirect costs; and (d) looked forward to receiving a proposal in the next annual report.

22. The cost-recovery issue was also discussed in the course of the joint meeting of the 100th session of the Programme Committee and the 123rd session of the Finance Committee, held in November 2008, during which the Committees noted with concern that the calculated level of under-recovery of administrative and operational support costs for extrabudgetary activities had been estimated at 37 per cent for the period 2006-2007, representing a significant hidden subsidy from assessed contributions. The Committees believe that the organization must develop extrabudgetary programme and project budgeting approaches to improve cost recovery, taking due account of ongoing efforts to harmonize such policies and practices in the United Nations system.

United Nations Office on Drugs and Crime

23. The United Nations Office on Drugs and Crime recovers programme support costs through the application of a charge of up to 13 per cent against activities funded from special-purpose contributions (earmarked contributions). From 2005 to 2007, reduced programme support charge rates were applied to projects valued at a total of 76.2 million.

24. At the 51st session of the Commission on Narcotic Drugs, held in March 2008, the Executive Director of the United Nations Office on Drugs and Crime submitted a report outlining the experience of the Office in applying the cost-recovery policy of the United Nations. The Executive Director confirmed that the Office would continue to apply the policies and procedures of the United Nations with respect to programme support charges and ensure the application of clear and consistent criteria in the granting of exceptions to the standard 13 per cent rate in 2008 and 2009. The Office is committed to ensuring the application of the programme support charge policies being developed under the "Delivering as one" initiative.

25. The Commission took note of the report of the Executive Director. It decided to establish an open-ended intergovernmental working group to discuss and prepare recommendations, to be presented to the Commission at its fifty-second session, on how to improve the governance structure and financial situation of the Office.

United Nations Development Fund for Women

26. During its first session of 2008, the UNDP/UNFPA Executive Board reiterated the need for the United Nations Development Fund for Women (UNIFEM) to ensure that functions linked to the management of other resources were adequately funded without undue subsidization by regular resources; urged UNIFEM to harmonize its cost recovery policy with United Nations organizations for multi-donor trust funds, joint programmes and joint offices; and requested UNIFEM to report to the Executive Board at its annual session of 2008 on the criteria and procedures for granting exceptions from the flat rate and on implementation of the cost-recovery policy.

27. In response to that request, UNIFEM submitted a background note on cost structure and cost-recovery policy, in which it concluded that the application of the standard rate of 7 per cent for support costs recommended under the new cost-recovery policy could largely recover the indirect costs associated with the management of programmes and projects funded through trust funds and third-party cost-sharing. In the note, UNIFEM also proposed that procedures for granting exceptions to the application of the flat rate be considered on a case-by-case basis.

28. Having reviewed the note, the Board urged UNIFEM to continue harmonizing its cost classification and cost-recovery policy with other United Nations funds and programmes. In addition, the Board decided that a recovery rate of 7 per cent be adopted for recovery of indirect support costs for new third-party contributions and a rate of 5 per cent for programme country cost-sharing contributions. The Board also requested the Executive Director to report on the implementation of cost recovery, including the impact of the applied rates on regular and other resources and the use and allocation of indirect costs recovered for consideration at the second regular session of the Board in 2009. It decided to maintain the authority of the

Executive Director of UNIFEM to grant waivers to the cost-recovery rate through a case-by-case review, taking into account the financial impact on the organization.

III. Rationalization of the United Nations country presence through common premises, co-location and common services

29. Increasing the number of field offices has been a common approach pursued by various United Nations system organizations to widen the impact of their operational activities for development on the ground and bring expertise and normative programmes closer to Member States. The field presence of the funds and programmes is generally structured at two levels: country offices (in a large number of Member States) and regional or subregional offices. For example, UNDP is present in 166 countries, with 135 full-fledged country offices and with field staff in 31 countries where there is no UNDP country office. Regional offices, namely regional service centres, are situated in five regions. UNICEF, UNFPA and WFP have a similar field presence, with a relatively smaller number of country offices that are supported by regional structures.

30. Specialized agencies take advantage of a wider range of field presence modalities to support their field-based programmes. WHO uses the two-level pattern of the funds and programmes, maintaining 145 country offices. Some other specialized agencies, including FAO, UNESCO and the International Labour Organization (ILO), have a three-level field structure, with country, subregional and regional offices. Several agencies are located in Government-provided premises as part of the cost-sharing arrangements. A number of agencies also seek a strengthened presence through host agency arrangements. For instance, the United Nations Industrial Development Organization (UNIDO) maintains UNIDO desks within UNDP country offices. With the ongoing United Nations country-level reform, the regional director teams have emerged as a new mechanism within the United Nations field architecture.

31. The breadth of United Nations field structures increases the flexibility of the United Nations system to respond to programme country needs but may also involve substantial transaction costs. As underscored by the High-level Panel on System-wide Coherence in its report (A/61/583), one third of the United Nations country teams include 10 or more United Nations agencies, necessitating rationalization of their presence in the light of cost efficiency. Regional offices have been created in response to the oversight and support needs of each United Nations organization, resulting in diverse configurations. To address those challenges, the Secretary-General, as early as 1997, set the objective that all United Nations entities with ongoing missions at the country level would operate in common premises. There is anecdotal evidence that reform efforts so far have been successful in reducing expenditures on housing and support services in some cases and in helping United Nations agencies work better together.

32. The United Nations development system is repeatedly called upon to streamline its field structures. In its resolution 62/208, the General Assembly encouraged United Nations system organizations to step up their efforts to rationalize their country presence through common premises, co-location and, where appropriate, to implement the joint office model and expand common shared support

services and business units, in order to reduce United Nations overhead and transaction costs for national Governments. A number of initiatives have been undertaken especially in the context of system-wide coherence on a pilot basis with a view to exploring solutions for system-wide application, pending the planned independent evaluation of the "Delivering as one" initiative.

A. System-wide efforts and progress

33. Prior to implementation of the "Delivering as one" initiative, UNDP, UNFPA, UNICEF and WFP, in response to General Assembly resolution 52/12, had already started the move towards common premises and, in some cases, common services. To date, 60 United Nations Houses[1] have been established around the world. Twenty-six common premises projects worldwide are being implemented, with expressions of interest for an additional 25.

34. In the "Delivering as one" pilot countries, there is a move to co-locate all resident United Nations agencies in common premises. However, this has thus far only materialized in Cape Verde, where the United Nations House was created well before the "Delivering as one" initiative had been launched. In the rest of the pilot countries, common premises projects are still at a preparatory stage. To support country efforts in such initiatives, the United Nations Development Group is exploring new financing options. Identifying premises that can safely accommodate all resident United Nations organizations has become a major challenge. It is important to note that the significant increase in security threats to United Nations premises globally and the large number of security-related premises relocations has led to a system-wide agreement, reconfirmed at the sixth regular session of the High-level Committee on Management, held in September 2008, that the establishment of common premises should be considered on a case-by-case basis, following a careful analysis of security implications.

35. The sharing of central support services is an important element of the common premises and co-location projects. Since the global launch of the common services programme of the United Nations Development Group in 2004, subsequent to a successful pilot, a growing number of United Nations country teams have engaged in the pursuit of common services with varying degrees of success. A number of tools and guidelines have been introduced and more are being explored. The recent adoption of the plan of action of the United Nations System Chief Executives Board for Coordination has given impetus to common services initiatives. A feasibility study for establishing regional inter-agency shared services centres in order to replace current individual agency-based services is part of the High-level Committee on Management plan of action for the harmonization of business practices in the United Nations system. In this regard, the various common services models pursued by United Nations system organizations provide an important reference point.

[1] The term "United Nations House" is conferred by the Secretary-General where the following minimum conditions exist: (a) the common premises house the office of the United Nations resident coordinator and the offices of all resident country directors/Representatives of UNDP, UNFPA, UNICEF and WFP; and (b) there is a commitment to developing a framework for cost-effective, high-quality and efficient common services.

36. At the country level, offsite advice and mission support have been provided by the United Nations Development Group to United Nations country teams. Recent common services initiatives have been largely driven by the "Delivering as one" pilots. Options have been tested in the United Republic of Tanzania to rationalize and simplify joint procurement processes. Progress towards common services is most evident in the area of information and communications technology, where United Nations country teams in pilot countries have started to harmonize information and communications technology support and share information and communications technology services with cost savings achieved in some countries.

37. Despite these advances, there is growing concern about the insufficiency of funding in implementing common services initiatives on the ground. Furthermore, setting up harmonized business practices at the country level is highly dependent on agreements and procedures at the global level.

B. Actions taken by the executive boards and governing bodies

United Nations Educational, Scientific and Cultural Organization

38. With the accelerating momentum of United Nations reform at the country level and system-wide coherence, the Director-General of UNESCO decided in 2006 to launch the second review of the decentralization strategy. The review assesses the capacity and effectiveness of the organization's current decentralized system to meet the new challenges brought about by the accelerating momentum of United Nations country-level reform.

39. During its 180th session, in 2008, the UNESCO Executive Board considered the report of the Director-General in this regard and took note of progress achieved in considering long-term measures for strengthening the organization's field presence.

40. Recalling the request of the General Assembly in its resolution 62/208 to strengthen the support of regional and subregional entities to United Nations country teams as well as inter-agency collaboration at the regional and subregional levels, the UNESCO Executive Board requested the Director-General to take all necessary measures to efficiently align the organization's decentralization system with the requirements of United Nations reform in the field, including flexible human resource mechanisms in the field and the use of UNESCO desks in the United Nations country teams; invited the Director-General to take into account the outcomes of the intergovernmental consultations being held in New York as they became available; and invited the Director-General to submit a final report at its 181st session, in 2009, on an adjusted decentralization system and structure, building on the comprehensive action plan on implementation of General Assembly resolution 62/208.

International Labour Organization

41. In the period 2006-2007, the International Labour Conference launched a review of ILO field structure. A number of factors necessitated reviewing the structure, methods of work and capacity of ILO field offices, such as United Nations reform at the country level. During the 301st session of the Governing Body, the Programme, Financial and Administrative Committee put forward a number of

proposals for reviewing the structure and corresponding functions of ILO external offices. The Committee proposals recognized that the establishment, in the context of United Nations reform, of United Nations regional hubs and of United Nations co-locations in countries provided an opportunity to realize synergies with ILO regional structures.

42. The Committee suggested that, with immediate effect, the number of national coordinators in countries with a large programme of cooperation but no ILO office be increased and that ILO technical cooperation be further decentralized. The Governing Body broadly agreed to the proposals and requested that ILO carry out additional analysis and consultations in this regard and issue a document in March 2009 containing further details on the proposals.

Food and Agriculture Organization of the United Nations, World Food Programme and International Fund for Agricultural Development

43. In 2007, FAO, IFAD and WFP undertook a joint mapping exercise, covering 2006 and 2007, to report on their collaboration. The mapping indicated that almost 70 per cent of the collaboration occurred at the country level, compared to 24 per cent at the global level and 6 per cent at the regional level. Country-level collaboration in the field of administration was mainly focused on joint field offices and common support services.

44. The past three years have seen growing collaboration between FAO and IFAD on joint field offices; this upward trend is expected to continue. A long-term framework agreement with IFAD for hosting IFAD staff in FAO premises has been under discussion. Some countries, where joint field offices may be possible, have also been identified in respect of WFP. A number of common services initiatives have been implemented or planned in the field. For example, in respect of treasury operations, there is cooperation between the three agencies on a case-by-case basis for field cash management issues.

45. During the joint meeting of the ninety-ninth session of the Programme Committee and the 122nd session of the Finance Committee, held in May 2008, the secretariat reported progress on collaboration between FAO, WFP and IFAD regarding administrative and processing work. The Committees welcomed the information provided in the progress report and the broader scope of the report including consideration of the FAO response to General Assembly resolution 62/208 and its role in the United Nations system reform process and in the "Delivering as one" pilot countries. The Committees also commended the three Rome-based agencies for seeking greater synergies and complementarities in service delivery to member countries and emphasized the continued need for convergence in order to maximize results and avoid duplication at the field level and between their three headquarters. The joint meeting further requested a progress report covering collaboration between the three agencies and cooperation with the United Nations system.

United Nations Industrial Development Organization

46. On 23 September 2004, UNIDO and UNDP signed an agreement to establish a basis for both organizations to develop joint technical cooperation programmes. To facilitate those programmes, UNIDO introduced a new model of field representation, namely, placing UNIDO desks in UNDP field offices.

47. At the end of 2009, UNIDO will have 17 desks operational in its five programme regions. The UNIDO desks have been instrumental in facilitating UNIDO involvement in country-level programming processes and in raising its visibility in the United Nations country teams. The desks also offer a cost-effective option for increasing the organization's field presence. The Director-General reported on the developments to the thirty-fifth session of the Industrial Development Board. The Board took note of the progress and actions taken in this regard.

International Fund for Agricultural Development

48. Recognizing the Fund's lack of representation in borrowing countries as a growing constraint to enhancing impact, the Executive Board of IFAD approved the field presence pilot programme in December 2003. The programme aims at piloting models to strengthen the presence of IFAD in the field. An evaluation of the programme was conducted during the period 2006-2007, with the findings considered by the Board at its September 2007 session. The Board asked IFAD to continue integrating its country offices more effectively, while experimenting with different models within those offices, and to implement a country presence plan. In response, IFAD management prepared an activity plan for the Fund's country presence in 2008 and submitted an action plan in the light of the experience gained during 2008. The action plan proposes 10 new country offices, in addition to the existing 17.

49. IFAD also seeks to use the most cost-effective method in establishing country offices, notably through reaching host agency agreements with other United Nations agencies, in order to rely on sister United Nations agencies, such as FAO, UNDP and WFP, for office space and other logistics.

50. In the long run, IFAD plans to pursue expansion of its country offices to additional countries, but this will be strictly based on the contribution IFAD can make to rural poverty reduction rather than on considerations of its representation. Special efforts will be made to contribute to the system-wide coherence of the United Nations by engaging proactively in the "Delivering as one" initiative.

United Nations Environment Programme

51. As outlined in the United Nations Environment Programme (UNEP) medium-term strategy for the period 2010-2013, strengthening strategic presence is one of the key institutional mechanisms in support of UNEP efforts to build a more effective, efficient and results-focused organization. According to the strategy, UNEP will continuously review and adjust its current global, regional and country presence to enable greater integration into United Nations country teams and the resident coordinator system while maintaining the organization's established normative and advocacy roles at the global level. It will not seek to have a universal country presence but will strengthen its presence in selected, strategic locations.

52. The Governing Council of UNEP considered and endorsed the strategy at its tenth special session, in February 2008, and authorized the Executive Director to use the strategy in formulating strategic frameworks and programmes of work.

IV. Simplification and harmonization of rules, procedures and business practices

53. Over the course of many years, United Nations system organizations have worked together, through the Administrative Coordinating Committee, which later became the United Nations System Chief Executives Board for Coordination, to seek common approaches to administration and management. Recent reform dynamics, in particular initiatives in the context of system-wide coherence, have injected fresh energy and a sense of urgency for the United Nations organizations to reassess their way of doing business in order to facilitate coherent United Nations operations at the country level.

54. A large number of internal reforms are under way, which aim to improve the results focus, transparency and accountability of the individual organizations. In this context, United Nations organizations and their governing bodies should be kept fully informed of system-wide dynamics and shape their internal efforts to align with the broader context.

55. Lack of financing poses a major challenge. The move towards a more simplified and harmonized working modality requires intensive initial investment. The experience of the United Nations system with implementation of the International Public Sector Accounting Standards (IPSAS) has so far indicated that the cost and complexity of some system-wide initiatives may go beyond original expectations and may therefore discourage organizations from moving forward in the absence of sufficient financing. Likewise, there is growing concern that a cost-cutting practice may become a resource-cutting exercise, placing organizations committed to reform in a disadvantageous position. Further progress is therefore affected by the extent to which the governance and funding mechanisms of the United Nations system can be strengthened to ensure that organizations with a demonstrable commitment to better performance, oversight, accountability, efficiency and results are rewarded with sustained and sufficient funding.

56. Strong political will is of ultimate importance in overcoming the challenges. Recent intergovernmental deliberations have paid growing attention to the issue of business practices. At its sixty-second session, in its resolution 62/208, the General Assembly called upon the United Nations funds, programmes and specialized agencies to continue to harmonize and simplify their rules and procedures with a view to reducing administrative and procedural burdens and enhancing the efficiency, accountability and transparency of the United Nations development system. Subsequently, through resolution 62/277, the Assembly decided that the continuing and deepening intergovernmental work of the Assembly on system-wide coherence would focus exclusively and in an integrated manner on, inter alia, the harmonization of business practices.

A. System-wide efforts and progress

57. The United Nations system has moved decisively towards greater policy coherence in advancing reforms in management and administration through further streamlining of its coordination mechanisms and a clearer definition of division of labour. In October 2007, the United Nations Development Group was integrated into the United Nations System Chief Executives Board for Coordination as its third

pillar, alongside the High-level Committee on Management and the High-level Committee on Programmes. The United Nations Development Group will focus on the coordination of country operations and country-level programme implementation with a view to developing innovative solutions in several areas related to management and administration. If feasible, United Nations Development Group-led processes will then be recommended to the High-level Committee on Management for consideration of system-wide replication.

58. The approval of the plan of action for the harmonization of business practices in the United Nations system in April 2008 by the United Nations System Chief Executives Board for Coordination and its launch in October 2008 represent a landmark move towards simplification and harmonization. The plan of action places particular focus on the needs emerging at the country level that require comprehensive adjustments and harmonization at the headquarters level, covering all major management functions of the United Nations system within the purview of the executive heads.

59. At the country level, the United Nations Development Group has approved an approach for greater integration of business operations with programming for United Nations Development Assistance Framework roll-out countries, taking advantage of the United Nations Development Group toolkit on improved functioning of the United Nations development system at the country level. It was agreed that "Delivering as one" pilot countries would each take a lead in a particular area of the business practices to explore what can be done to achieve greater simplification and harmonization.

60. Although extrabudgetary resources are required for implementation of the plan of action, projects where some initial work could take place without additional funding are already under way.[2] In addition, a number of initiatives launched prior to the endorsement of the plan of action continue to demonstrate concrete progress, especially in the following areas.

Finance and budget

61. UNDP, UNFPA, UNICEF, WFP and the United Nations Secretariat have made decisive moves to harmonize their financial rules and regulations. The first draft of harmonized financial regulations is expected to be presented to respective governing bodies for endorsement in the near future. It was foreseen that, upon completion of the first stage, the effort of harmonization would be expanded to the rest of the United Nations system organizations.

62. The harmonization of financial rules and regulations is closely linked to the efforts to upgrade policy and systems undertaken in the context of preparations for the implementation of IPSAS. Following endorsement of IPSAS by the General Assembly at its sixtieth session, organizations that adopted the Standards early on (WHO, WFP and the International Civil Aviation Organization) have demonstrated

[2] These include: harmonized budgeting practices, led by UNDP and the International Atomic Energy Agency; common treasury services, led by IFAD and WHO; cost-recovery policies, led by UNESCO and the Development Operations Coordination Office; system-wide training on the International Public Sector Accounting Standards, led by the international public sector accounting standards team; and enhancements to the United Nations Global Marketplace, led by the High-level Committee on Management Procurement Network.

tangible advancements and are providing lessons learned. The majority of the organizations are maintaining the 2010 target date for IPSAS adoption. However, the High-level Committee on Management has requested all organizations to review their target date for implementation of the Standards, taking into consideration concerns raised about the risks for each organization in achieving the target date. While encouraging members to take appropriate steps to achieve the target date of 2010, the Committee asked them to adjust the target date if necessary and inform all stakeholders on a timely basis.

63. The United Nations Development Group approved the memorandum of understanding and the standard administrative arrangement for multi-donor trust funds and joint programmes. Further enhancement of the management and oversight of multi-donor trust funds and "One UN" funds established in the "Delivering as one" pilots facilitated the joint resource mobilization efforts of the United Nations country teams.

64. Subsequent to its launch in April 2005, the harmonized approach to cash transfers to implementing partners has become an entry point for strengthened national capacities in public financial management and increased use of national public financial management systems. As at the end of September 2008, the approach has been fully operational in 15 countries. In the pilot countries, it has been expanded beyond UNDP, UNFPA, UNICEF and WFP, with UNESCO, the United Nations Office for Project Services, FAO and the United Nations Human Settlements Programme confirmed that they would use it where applicable to their operations. The United Nations Capital Development Fund and Global Alliance for Vaccines and Immunizations secretariats are currently exploring the possibility of using the approach.

Audit

65. Following agreement on the policy on auditing common services and on the framework on auditing multi-donor trust funds in 2007, the Framework for Auditing United Nations System Coordinated Programmes Supported by Multiple Agencies was agreed by the group Representatives of Internal Audit Services of United Nations Organizations and Multilateral Financial Institutions[3] and endorsed by the United Nations Development Group at the end of September 2008. Additionally, agreement on standard internal audit and investigation-related clauses for a memorandum of understanding for multi-donor trust funds and "One UN"-funded activities was reached in June 2008 and was endorsed by the United Nations Development Group in October 2008. The group Representatives of Internal Audit Services of United Nations Organizations and Multilateral Financial Institutions is working on further areas of potential harmonization and coordination. It should be

[3] The group Representatives of Internal Audit Services of United Nations Organizations and Multilateral Financial Institutions is concerned with adopting common professional positions and providing, as necessary, information and advice to other United Nations bodies (such as the United Nations System Chief Executives Board for Coordination, the High-level Committee on Management, the United Nations Development Group) on audit-related matters. It is also concerned with coordinating and harmonizing internal audit activities and processes among members, where necessary. A standing working group composed of 14 organizations is dedicated to coordination and sharing of information.

noted that increased alignment and cooperation of internal audit methodologies and practices has to take into consideration the respective governance policies and structures of United Nations organizations, including recommendations of their audit committees, where appropriate.

Procurement

66. Simplified and harmonized procurement processes are piloted at the country level and at headquarters. In the United Republic of Tanzania, the United Nations Development Group has provided support to the United Nations country team on rationalizing and simplifying joint procurement processes and setting up a joint procurement team. The proposed solutions to identified obstacles are being tested at the country level for the feasibility of wider application. At the global level, with a view to harmonizing and simplifying supplier registration and sourcing processes, an online supplier database, the United Nations Global Marketplace, has been established as a result of the collaboration between 23 United Nations system organizations. Under the coordination of the High-level Committee on Management, the database is being updated to better serve as a knowledge-sharing and e-tendering platform. The High-level Committee on Management continues to work on the development of harmonized procurement manuals, on embedding sustainability in procurement practices and on professionalization of the procurement staff.

Information and communications technology and the enterprise resource planning system

67. Inter-agency efforts in the information and communications technology (ICT) area has resulted in a series of recommendations on the establishment of a common directory for agencies and on a common information technology network architecture for country offices. A common directory solution is expected to be made available for access in all pilot countries. The pilot countries are also striving to share ICT support and streamline ICT infrastructure in shared United Nations Houses. In addition, at the beginning of 2009, the High-level Committee on Management endorsed the proposal for an ICT network regarding access by agencies to each others' Intranet services. Specific implementation guidance will now be developed by the Committee in cooperation with the United Nations Development Group. Furthermore, a common domain name and common e-mail address will be deployed in 2009.

68. The harmonization of enterprise resource planning operational and administrative practices and processes pursues two objectives, namely, helping organizations that have not already implemented an enterprise resource planning system to take full advantage of the range of existing implementations and harmonizing business practices through use of the system. WFP, ILO and UNDP, each currently using different enterprise resource planning systems, have been tasked to explore recommendations for streamlined business processes.

Enterprise resource planning

The enterprise resource planning system provides an integrated suite of information technology applications that support the operations of an enterprise. The activities supported by the system include: finance and budget management, human resource management, supply chain management, central support services and other core services. The main value of the system is that it provides the opportunity to streamline and improve the operations of an entire organization through process re-engineering, sharing of common data and implementation of best practices and standards.

B. Actions taken by the executive boards and governing bodies

United Nations Educational, Scientific and Cultural Organization

69. It may be recalled that during its thirty-fourth session in 2007, the General Conference of UNESCO endorsed the International Public Sector Accounting Standards as the accounting standard for UNESCO, with effect from 1 January 2010. Since then, a new structure has been established to manage the project on a regular basis. Several workshops have been held for staff members to assist in the early phases of the new management process.

70. The Director-General of UNESCO submitted a report to the 180th session of the Executive Board with an action plan and suggested changes to the current financial rules and regulations. The Director-General stressed that the funding gap posed a major challenge to adopting the International Public Sector Accounting Standards in 2010, as scheduled.

71. Having examined the report of the Director-General, the Executive Board took note of the work already performed by the United Nations system and UNESCO, in particular with regard to the substantive technical review of accounting standards; also took note of the shortfall in the budget for the IPSAS project and of the intention of the Director-General to either obtain additional funds from extrabudgetary sources or to find savings in the current biennium budget to finance the IPSAS project; and requested the Director-General to submit to it at its 181st session a progress report on the implementation of the action plan, including any proposed amendments to the financial regulations.

World Health Organization

72. In 2007, the World Health Assembly endorsed the introduction of IPSAS. During the eighth session of the Programme, Budget and Administration Committee of the Executive Board, the secretariat reported progress and noted that in 2009 it would present to the governing bodies proposed changes to the Financial Regulations effective 1 January 2010. The Committee welcomed the move to full compliance with IPSAS and noted that implementing IPSAS would further enhance the financial accountability of the organization.

73. WHO has been making efforts to simplify its business practices by establishing a global management system, with the aim of streamlining business processes while enabling the organization to use its financial and human resources more efficiently. The global management system is currently in the final stage of preparation. In parallel, a global service centre in Malaysia has been established and became fully operational in June 2008.

74. The Programme, Budget and Administration Committee of the Executive Board welcomed the continued progress made in management reform, most recently at its 8th meeting. The Committee also recognized the size and complexity of the task of implementing the system and the substantial risks involved. At its 9th meeting, the Committee reiterated that a global management system underpinned the achievement of many strategic management objectives and that the organization should persevere with its implementation.

Food and Agriculture Organization of the United Nations

75. At its 115th session, in September 2006, the Finance Committee of FAO approved the adoption of IPSAS effective 1 January 2010. A detailed planning exercise was completed in March 2008, which concluded that full implementation of all IPSAS deliverables could not be achieved by 2010, but that extending the duration of the project would allow the organization to achieve initial IPSAS compliance by the end of 2010 and full compliance by the end of 2011. The scale of business changes and its impact have proved to be significantly greater than expected.

76. Having considered the secretariat progress report, submitted at its 122nd session, in May 2008, the Committee reaffirmed the high importance of IPSAS adoption by FAO; stressed the importance of FAO working with the other United Nations organizations so as to benefit from common experiences in adopting IPSAS; and noted that the United Nations organizations that had planned to be early adopters of IPSAS were experiencing delays in implementation. The Committee also reconfirmed its approval for the project to go ahead in the period 2008-2009 on the basis of the increased cost estimates and requested that the funding proposals for the period 2010-2011 examine, inter alia, reprioritization of funds and funding from extrabudgetary sources. At its 123rd session, in October 2008, the Committee was informed that, in the context of FAO reform and the independent external evaluation, the organization was revisiting its planning assumptions and that IPSAS compliance would not be achieved in 2010. The first year of IPSAS compliance is currently planned for 2012.

United Nations Industrial Development Organization

77. At its twelfth session, in December 2007, the General Conference decided to adopt IPSAS effective 1 January 2010. Efforts have been made to execute and monitor the overall process of IPSAS adoption and to ensure its timely implementation. Training has been provided to relevant staff and policies have been developed on a continuous basis.

78. During its twenty-fourth session, in September 2008, the Programme and Budget Committee took note of the progress report of the secretariat on IPSAS. The Industrial Development Board also took note of the report at its thirty-fifth session, held in December 2008.

79. The Industrial Development Board took note of a report on United Nations system-wide coherence, in which the Director-General pointed out that, in the context of "Delivering as one", UNIDO had expressed full support for national execution and had taken a conscious decision to adopt the harmonized approach to cash transfers to implementing partners in the pilot countries, whenever the nature of the voluntary funding allowed it and in accordance with policies established by its policymaking organs. A review of its business practices is currently under way, as part of the process of simplifying and harmonizing business practices in the United Nations system and drawing from the "Delivering as one" experience. The Board took note of the report.

80. In addition, a note by the Director-General has been submitted by the Programme and Budget Committee at its twenty-fifth session, for consideration in May 2009, outlining the organization efforts and a proposed road map in the fields of enterprise resource planning and change management in line with system-wide standards and best practices.

Office of the United Nations High Commissioner for Refugees

81. The Office of the United Nations High Commissioner for Refugees (UNHCR) approved the adoption of an IPSAS project plan in June 2008. Since then, efforts have been made to institute new project management structures.

82. The United Nations Board of Auditors exercises close oversight of the IPSAS project. In a recent report, the Board of Auditors recommended that UNHCR provide regular updates on the IPSAS adoption plan and the related budget. In response to the recommendation, the United Nations High Commissioner for Refugees submitted a report to the Executive Committee of UNHCR, during its fifty-ninth session, which outlined progress towards full adoption of IPSAS. The Committee took note of the report and requested the secretariat to keep the Committee regularly informed of the measures taken to address the recommendations and of the observations raised in various oversight documents.

Joint United Nations Programme on HIV/AIDS

83. The technical support division of labour of the Joint United Nations Programme on HIV/AIDS (UNAIDS) was developed to establish a more coherent approach among UNAIDS co-sponsors and the UNAIDS secretariat for the provision of technical support. The division of labour has led to reduced transaction costs for all partners (national, United Nations and donors); enhanced coordination among United Nations agencies in simplifying and harmonizing United Nations support through joint missions, joint reviews and other joint operational and programmatic aspects; and improvements in reporting on areas of responsibility.

V. Conclusion

84. In the context of the changing aid environment, growing demand from both programme and donor countries has been placed on the United Nations development system to translate the principles of accountability into more simplified and harmonized working modalities at the system-wide level and render processes more results-oriented and transparent. This has been clearly evidenced by the expanding scope and quantity of guidance on business practices emerging from the

intergovernmental processes of the executive boards and governing bodies over the past year.

85. Inspired by this growing momentum, the United Nations development system has started to work more closely to identify and operationalize concrete solutions for streamlining, rationalizing and optimizing the key business processes and practices at headquarters and in the field. The endorsement by the United Nations System Chief Executives Board for Coordination of the High-level Committee on Management plan of action has set out a road map for the collective effort. The "Delivering as one" country pilots have provided a platform to test innovative solutions for application on a wider scale.

86. The complexity of achieving a closer match between the need for the United Nations system to work in a collaborative and coherent way and the reality of the structure and business modalities of the various United Nations system organizations may need more examination. Challenges also stem from the difficulty of maintaining the motivation of the organizations, which can be affected as a result of their limited financial capacity.

87. Reform in the area of management must go hand-in-hand with progress in reinforcing policy coherence among the various intergovernmental processes. In addition, the commitment of United Nations system organizations to coherence and effectiveness should be matched with sustained financing. In this regard, the availability of extrabudgetary resources requested in the funding proposal for the United Nations System Chief Executives Board for Coordination/High-level Committee on Management plan of action remains critical to sustaining the growing momentum towards simplification and harmonization.

88. Fast-paced reform in the field requires corresponding policy changes at headquarters. Concrete moves at the centre solicit enhanced guidance and strong political support from the executive boards and governing bodies. In this connection, ensuring adequate sharing of information with the executive boards and governing bodies about the progress to deliver on reform in the broader system-wide context is of great importance to success.